

September 12, 2005

Nelson Anavar, Manager
Kugaktlik Limited
PO Box 36
Kipnuk, AK 99614

Dear Mr. Anavar:

I am writing to respond to a faxed letter I received from Jim Brennan of Hedland, Brennan and Heideman on September 1, 2005. I have attached a copy of that letter for your reference.

My responses below are numbered to correspond to the questions in Mr. Brennan's letter:

1. No, it is not an absolute requirement that the fuel storage and dispensing facilities be owned by a local government entity.
2. The language referenced in this question may not apply directly to the situation in Kipnuk. At this early stage in project development, I suggest that the Corporation retain ownership of the two 110,000 gallon tanks it currently owns. If those tanks are included in an Alaska Energy Authority (AEA) bulk fuel project in Kipnuk, the Corporation's interest and investment in those tanks should be protected.
3. The tank farm site selection is not final. I welcome any comments or suggestions you may have regarding possible sites in Kipnuk.
4. There are many creative ways in which the Corporation's interests and investments in the proposed facility could be protected. For example, a renewal and replacement escrow account could be established requiring signatures from each party before funds are withdrawn. The first step is to define the scope of the project before drafting the business plan and legal agreements. Note that all of these aspects of project development are contingent upon available funding, and the Denali Commission retains the responsibility for final authorization of all business plans and construction funding requests.

5. AEA business plans are drafted by an AEA business consultant. The plans are circulated to all project participants and interested parties for comment. Once they are finalized, the plans are again circulated to participants and the Denali Commission for final signature.
6. The current proposal in the CDR is that one of the Corporation's tanks would be used by the Corporation and one would be used by the Council (see p. C-2 of the conceptual design drawings). In exchange, the Corporation would use several smaller new tanks. If that arrangement is not in the Corporation's best interest, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "David Lockard". The signature is fluid and cursive, with the first name "David" being more prominent than the last name "Lockard".

David Lockard, P.E.
AEA Project Manager

cc: Jimmy Paul, Manager, Kipnuk Tribal Council
Kathy Prentki, Denali Commission Energy Program Manager
Chris Mello, AEA Program Manager
Jim Brennan, Hedland Brennan & Heideman

Enclosure: 9/1/05 letter from Jim Brennan to David Lockard

LAW OFFICES

HEDLAND BRENNAN & HEIDEMAN
A PROFESSIONAL CORPORATIONANCHORAGE
JAMES T. BRENNAN
SARA E. HEIDEMAN1227 WEST NINTH AVENUE, SUITE 300
ANCHORAGE, ALASKA 99501-3218
TELEPHONE: (907) 279-5528
TELEFAX: (907) 278-0877Of Counsel:
JOHN S. HEDLAND**FACSIMILE COVER SHEET**The following document, including cover sheet, contains 3 pages.

Date: September 1, 2005

TO: David Lockard
Project Manager, Kipnuk Bulk Fuel Upgrades.
Fax No. : 269-3044**FROM: James T. Brennan**
Phone: (907) 279-5528 Fax: (907) 278-0877

Our File No: 3583

MESSAGE:

THE INFORMATION CONTAINED IN THIS FACSIMILE TRANSMITTAL IS CONFIDENTIAL, MAY BE SUBJECT TO THE ATTORNEY-CLIENT PRIVILEGE AND IS INTENDED ONLY FOR THE USE OF THE RECIPIENT NAMED ABOVE. IF THE READER OF THIS INFORMATION IS NOT THE INTENDED RECIPIENT, OR THE EMPLOYEE OR AGENT RESPONSIBLE FOR DELIVERY TO THIS INFORMATION TO THE INTENDED RECIPIENT, YOU ARE HEREBY NOTIFIED THAT THIS IS NOT A WAIVER OF PRIVILEGE AND ANY DISSEMINATION, DISTRIBUTION OR COPYING OF THIS INFORMATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS INFORMATION IN ERROR, PLEASE NOTIFY THE SENDER IMMEDIATELY BY TELEPHONE AND RETURN THE ORIGINAL INFORMATION TO THE SENDER, BY U.S. MAIL, AT THE ABOVE ADDRESS.

Original: Mailed ____

Not Mailed ____

LAW OFFICES

HEDLAND, BRENNAN & HEIDEMAN
A PROFESSIONAL CORPORATION

FROM THE DESK OF:
JAMES T. BRENNAN
ATTORNEY AT LAW
law@hbhc.alaska.net

September 1, 2005

VIA FACSIMILE
269-3044

David Lockard
Project Manager, Kipnuk Bulk Fuel Upgrades
Alaska Energy Authority
813 W. Northern Lights Blvd.
Anchorage, AK 99503

Dear Mr. Lockard:

As we discussed on Tuesday, August 30, 2005, I represent Kugkaktlik Ltd., the Native Corporation of Kipnuk. The Corporation's board and management have asked me to assist them in obtaining clarification of what is envisioned by the CDR for the Kipnuk Bulk Fuel Upgrades project. The primary matters they would like clarified concern ownership and operation of the facility and its components. When I spoke with you, I had not yet seen a copy of the CDR; I have now reviewed it. You asked that I put my questions to you in writing, which I am happy to do. I continue to think, however, that at some point it may be useful for you and I to discuss this matter directly. You also indicated you would like to communicate directly with Kugkaktlik Ltd. officials; I do not have a problem with this and in fact encourage it. I was glad to learn that you had called Nelson Anaver, General Manager, Wednesday morning.

My questions at this point are:

1. Is it absolutely required, under the Denali Commission's Private Enterprise Policy (CDR, p. 6) that the fuel storage and dispensing facilities be owned by a "local government entity"? The policy states that this will "generally" be required. Is there a reason why ownership has to be under the Native village tribal entity (KTC) rather than the Native village corporation (Kugkaktlik Ltd.)?
2. What is meant by the "Primary Owner" and the "Secondary Owner" as referenced in the Denali commission's criteria for sustainability policy (CDR, pp 11-12)? Am I correct in understanding that the owner of the facility may enter into a long term, \$1 per year lease with Kugkaktlik Ltd. of the tanks presently owned by Kugkaktlik Ltd., and all associated components, including those required for dispensing fuel to retail consumers? Under this arrangement, would Kugkaktlik Ltd. be considered the "Secondary Owner"?

3. Is the tank farm site selected by LCMF, near the KPC power plant facility, a final, unalterable selection?

4. Can the sustainability policy of the Denali Commission be met by a business plan which establishes a separate renewal and replacement fund for that portion of the facility leased and operated by Kugkaktlik, Limited? If this is not the case (such that revenues of Kugkaktlik Ltd. which are placed in a renewal and replacement fund in the name of KTC), what protections would exist to assure that such funds cannot be tapped by a general creditor of KTC? The requirement that the "Primary Owner" maintain "separate accounts for the tank farm operation" suggests that if KTC is the owner of the facility it will also own and control the renewal and replacement fund, including that portion which is funded by Kugkaktlik, Ltd. Would KTC also control expenditures from this fund for purposes of renewal and replacement of the Kugkaktlik - operated components of the consolidated facility?

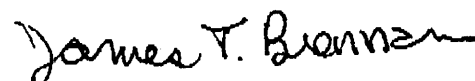
5. Who is to initiate development of the Business Plan? My client has been under the impression that this was going to be coordinated by AEA, is this true? What is the status of drafting a Business Plan, and what interactions with Kugkaktlik, Ltd. officials do you envision in developing the Plan?

6. Am I correct in understanding that the Ownership and the Operation section of the CDR (pp. 36-37) means that the fuel tanks currently owned by Kugkaktlik would continue to be used only by Kugkaktlik, and will not be part of any "common system" that will serve the other involved entities?

I look forward to your response to these questions. Please transmit an additional copy of your response directly to my client c/o Nelson Anaver, General Manager, at fax number (907) 896-5140.

Thank you for your attention in this matter.

Sincerely,


James T. Brennan

cc: Nelson Anaver via Fax
JTB:jcc
3583\Locard Ltr